NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
November 3, 2005

CONTACT: Mike Roth
(916) 653-5126

TREASURER ANGELIDES URGES GOVERNOR SCHWARZENEGGER TO PRESS PRESIDENT BUSH, CONGRESS TO REJECT BUSH TAX PANEL RECOMMENDATIONS THAT WOULD HARM CALIFORNIA FAMILIES

SACRAMENTO, CA – California State Treasurer Angelides today sent the attached letter to Governor Arnold Schwarzenegger, urging him to call on President Bush and Congress to reject recommendations made by the President's Advisory Panel on Federal Tax Reform earlier this week, which the Treasurer said would raise taxes on middle-class Californians and hurt California's economy.

Attached please find today's letter from Angelides to Schwarzenegger and a July 22, 2005 letter to Schwarzenegger from Rep. Charles Rangel, the ranking member on the House Ways and Means Committee, alerting Schwarzenegger to the potential harmful effects the panel's recommendations could have on California.

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PHILIP ANGELIDES
Treasurer
State of California

November 3, 2005

The Honorable Arnold Schwarzenegger
Governor
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

I am writing to draw your attention to the damage that would be done to California by the recommendations of President Bush's Advisory Panel on Federal Tax Reform, which were formally adopted earlier this week. These proposals would raise taxes on middle-class Californians and hurt California's economy. I am disappointed that you have not spoken out against these harmful proposals, and I urge you to call on President Bush and Congress to reject the panel's recommendations.

On July 22 of this year, U.S. Representative Charles Rangel (D-New York) wrote to alert you that the Bush panel would likely recommend eliminating the federal tax deduction for taxes paid to state and local governments. In that letter, Mr. Rangel warned that California would be one of the states hardest hit by this change, and asked for your bipartisan cooperation in halting the panel's plan (see attached letter). Mr. Rangel's staff informs me that his office received no response to that letter.

According to the *San Jose Mercury News*, on October 18, when the panel voted to recommend both eliminating the state and local tax deduction *and* capping the deduction for mortgage interest at $312,895 – a level far below California's median home price of $568,000 – your Department of Finance spokesperson said your administration would study the impacts of the panel's recommendation on our state.

It was with surprise, then, that I read the comments of your Department of Finance spokesperson in the Associated Press reports of Tuesday, November 1: "We're in the process of getting more details and doing a more detailed analysis." Given the devastating effect these proposals would have on California homeowners and middle-class taxpayers, I would expect that your Administration would move quickly to analyze this threat to California's taxpayers and our economy and to take quick and decisive action to make clear to the Bush Administration that these proposals are unacceptable to Californians.

915 CAPITOL MALL, ROOM 110, SACRAMENTO, CA 95814 • (916) 653-2995 • FAX (916) 653-3125

Organizations and experts across the political spectrum have had no similar difficulty in analyzing the harm these proposals would do to middle-class Californians:

- The chief executive of the National Association of Home Builders said the panel's recommendation is "the biggest tax hike for home owners ever considered" that would "punish millions of homeowners, particularly those living in California," and would "reduce home values and send a chill through the housing market, which has been leading the economic expansion for the past three years."

- An economist for the independent Economic Policy Institute has said the proposals are "a shift in tax burden to people who rely on working for their income" and predicts that the proposed mortgage interest deduction cap "could have the effect of shoving down home values significantly and leaving people upside down on their mortgages" in Southern California.

My office has already done a preliminary analysis of these two proposals, and concluded that the panel's recommendations are a double-barreled blast aimed squarely at California and the middle class. Far more than most other American taxpayers, middle-class Californians depend on those deductions. In the 2002 tax year, the latest year for which figures are available, 5.9 million California taxpayers claimed $52.3 billion in deductions for state and local taxes paid, 17 percent of the national total of $308.7 billion, saving more than $13 billion in federal taxes, or an average of $2,200 apiece. They took an even larger share of mortgage interest deductions, claiming $61 billion in deductions and saving around $15 billion in federal taxes.

One in every four Californians filing a federal tax return takes a deduction for state and local taxes paid; one in three takes a deduction for mortgage interest. Those figures rise to nearly half for the 8 million California middle-class taxpayers with adjusted gross incomes of between $20,000 and $100,000 a year.

Here's what the panel's recommendation to cap the mortgage interest deduction would mean in California: For example, for a family purchasing a median-priced home, earning $90,000 a year, and paying taxes in the 25 percent bracket, the panel's proposal would result in a federal tax increase of around $4,000 a year. But the proposal would have much less or no impact in other parts of the country, where the ceiling on mortgage interest would be near or above the median home price. This recommendation of President Bush's panel would hit hard at middle-class families in California.

The panel's recommendations would put new burdens on our state at a time when we are already sending an estimated $50 billion more in federal taxes to Washington than the federal government spends in the state. In 2003, the most recent year for which figures are available, for each dollar Californians paid in federal taxes, the federal government spent only 79 cents here, the largest gap in California's recent history, according to the nonpartisan California Institute for Federal Policy Research. Since 1994, California's negative balance of payments with

Washington has grown tenfold, from $5 billion to $50 billion, with the pace accelerating since President Bush took office.

You promised the people of California that you would use your clout in Washington to secure California's fair share of federal funding. These proposals would increase the imbalance between what Californians pay in taxes and the services we receive from the federal government.

Again, I urge you to call on President Bush and Congress to reject these proposals that would do so much damage to California and its middle-class families.

Thank you for your consideration.

Sincerely,

Phil Angelides
State Treasurer

Attachment

cc: The Honorable Charles Rangel, Ranking Member, Committee on Ways and Means, U.S. House of Representatives
Honorable Members, California Congressional Delegation
The Honorable Don Perata, President pro Tempore, California State Senate
The Honorable Fabian Núñez, Speaker, California State Assembly

Congress of the United States
U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS

1102 LONGWORTH HOUSE OFFICE BUILDING
(202) 225-3625

Washington, DC 20515-6348

http://waysandmeans.house.gov

July 22, 2005

Governor Arnold Schwarzenegger
State Capitol Building
Sacramento, CA

Dear Governor Schwarzenegger:

It is highly probable that President Bush's Tax Reform Panel will recommend repeal of the Federal tax deduction for State and local taxes as part of its tax reform recommendations. President Bush has set forth some ambitious and costly goals for his tax reform plan. He also wants the plan to be revenue neutral, requiring some equally ambitious offsetting revenue increases. The President has indicated that he intends to preserve current law deductions for home mortgage interest and charitable contributions. However, he made no such commitment concerning State and local taxes.

I am writing you because your State is among the top fifteen States when ranked on the basis of the relative importance of the deduction for State and local taxes. For individuals in your State who itemize their deductions, repeal of that deduction would result in an average tax increase of $2,221.

Given the significance of the deduction to your State, it is important that the President's Tax Reform Advisory Panel and Members of Congress hear your voice as they consider proposals to repeal the deduction. Organizing early and coordinating our voices will significantly improve our chances of prevailing on defeating a repeal fo the deduction. I believe that this is an issue that crosses party lines, and therefore, I am hopeful we can engage in bipartisan cooperation.

I have attached a study prepared by the Democratic Staff of the Committee on Ways and Means on the issue of deductibility of State and local taxes. If you or your staff have any questions on the study, feel free to contact me or the Democratic Staff of the Committee on Ways and Means at (202) 225-4021.

Let me know how you wish to be involved in this effort.

Sincerely,

Charles B. Rangel

Charles B. Rangel
Ranking Democrat

cc: Phil Angelides, Treasurer ✓